

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Enhance
the Role of Demand Response in Meeting
the State's Resource Planning Needs and
Operational Requirements

Rulemaking 13-09-011
(Filed September 19, 2013)

**RESPONSE OF OLIVINE, INC TO PROPOSED
DECISION ADDRESSING FOUNDATIONAL ISSUE OF THE
BIFURCATION OF DEMAND RESPONSE PROGRAMS**

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Introduction

Olivine appreciates the efforts the Commission has taken to understand the issues and concerns surrounding bifurcation and in particular integration into the California Independent System Operator (CAISO) energy markets. Being the only third party with operational experience bidding demand response (Proxy Demand Resource) into the CAISO markets we understand how challenging that can be.

As with any change of this magnitude all impacts and issues can never be fully known ahead of time and a successful outcome will require thoughtful management of the issues and navigation of the challenges throughout the process.

We appreciate and value the opportunity to comment on the proposed decision and to participate in this proceeding.

Bifurcation Terms and Definitions

Olivine supports the development of new terms to more adequately describe the bifurcation being ordered. We see these updated terms as extremely useful in providing a distinction between those that reduce load requirements and those directly integrated within the wholesale market. The only comment we would make is that the terms as presented are grammatically dissimilar. Perhaps Load Modifying Resource as opposed to Load Modifier could be adopted during the process. One critical element in the definition of Supply Resources as provided in the Proposed Decision is that 'Supply Resource demand response is a resource that **can** be scheduled and dispatched into the CAISO energy markets, when and where needed'. We would anticipate referring to Supply Resources or more specifically programs identified as Supply Side as

Wholesale-enabled or more precisely Wholesale-ready with all participants of a given program not necessarily included in a wholesale market bid. Such clarifications and distinctions would be helpful during this transition process where the specific implementations details will be critical in addressing potential Resource Adequacy (RA) implications and possible RA double-counting.

Bifurcation Process

Consistent with Olivine's previous comments, we believe that the entire enrollment of current programs identified as Supply side may not be biddable into the wholesale market for various reasons. This assertion is supported by our own operational experience and analysis that we have undertaken on these programs. If entire programs must integrate, a likely result would be that some customers would transition to a non load-modifying program (i.e., rates) or withdraw participation. In the Proposed Decision the Commission has provided somewhat for this issue by deferring details as to amounts and timing to a later phase of the proceeding, indicating that not all demand resource assets within Supply Resource programs will be bid into the wholesale market.

From this, the finding of fact that a Resource Adequacy (RA) double counting problem exists without a clear bifurcation, and the expectation that locally-dispatchable DR will continue to count towards RA, we infer that Supply-side utility programs will have bidding requirements that make them collectively Supply-side with corresponding RA treatment without a requirement that all such DR assets (i.e., enrolled customers) are actively bid into the wholesale market. While this is not necessarily a third class of DR – which we identified as a possible trifurcation – it does imply a separate RA treatment for Supply-side programs that is based on the quantities and/or

frequency of market bidding, not just on enrolled capacity. We anticipate these details to be addressed in the Resource Adequacy Proceeding.

Based on these assumptions, Olivine understands the inclusion of BIP, DBP, CBP, AMP, and AC Cycling all into the Supply Resource category. Integration and transition of these programs will not be without detailed planning. The successful management of this transition as defined in these later phases of the proceeding will be the critical factor in determining the value of the bifurcation effort for California. Olivine strongly recommends that each utility's portfolios should be objectively analyzed, taking into account the external dependencies that may be beyond the IOU's control (such as LSE agreements, Application Interfaces at the CAISO or elsewhere as well as the availability of RDRR and other relevant new ISO resource types) prior to the finalization of these decisions during Phase III of the proceeding.

Auction Mechanism

Olivine understands the value of a mechanism such as a demand response auction to enable aggregators and direct customers to offer DR capacity directly to utilities using a standard offer mechanism. Presumably this could lower the cost of acquiring DR – and equally important – increase the available DR in California that can directly participate as Supply Resources.

We support those objectives and believe that participating in wholesale markets will require some form of experienced, cost effective facilitation. Olivine does however believe that there may be alternative approaches to the current auction discussion that would deliver more value to California more quickly during this transition period and in the long run and urge the commission to consider other non-FERC jurisdictional approaches.

Some specific considerations to individual utility-run auctions:

- Separate utility-specific run auctions create unnecessary overhead with separate processes and systems. They can mitigate a great deal of the value in providing an easy-to-access pathway for potential supply resources without the standardization that would be available through a state-wide interface.
- A state-wide auction or other similar mechanism implemented and administered by a reliable, third party could be implemented faster and more cost effectively without distracting the IOUs who have already indicated they are (over)taxed with multi-year implementation efforts around Rule 24 and program integration.
- During a transition period, existing infrastructure could be used to implement a California-wide third party ‘program’ to start by 2015 to provide a mechanism for supply side resources to gain immediate entry to participation in the wholesale markets prior to the 2017-2019 cycle filings.
- Such an approach, dedicated 100% to Supply Resources, would provide an ability to match the resources with the buyer as well as provide a cost effective avenue for direct participation, defining several wholesale ready, flexible resource products.
- This mechanism can provide a means for transition and self-selection to the Supply-side by potential participants mitigating some of the potential loss of capacity that might otherwise be expected and providing an option for resources that do not currently participant in utility-based programs.

- Prospective participants could provide capacity bids with the enrollments based on IOU budgets and cost parameters, coordinating and complementing the utilities' efforts to implement systems to support Rule 24.
- A benefit of this type of approach would be the ability for the third party to allow participants who cannot meet the CAISO minimum requirements to transparently combine into single PDRs.
- PDR resources could be made available to the utilities in times of distribution need as well as being visible to the CAISO.

We believe this concept could bring immediate value to California, meeting some of the initial goals of bifurcation while providing real world experience during this bridge period. This learning will be invaluable while stakeholders and parties define the details and adjust business models as necessary.

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